

**CITY OF MILLERSBURG, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014**

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Officials

Name	Title	Term Expires
(Before January, 2014)		
Elected Officials		
William Montross	Mayor	January 31, 2016
Earle Hall	Council Member	January 31, 2014
Marion Conner	Council Member	January 31, 2016
Michael Gorsch	Council Member	January 31, 2016
Betty Husband	Council Member	January 31, 2016
Darwin Smith	Council Member	January 31, 2014
Appointed Officials		
Sally Hall	City Clerk	January 31, 2015
(After January, 2014)		
William Montross	Mayor	January 31, 2016
Earle Hall	Council Member	January 31, 2018
Marion Conner	Council Member	January 31, 2016
Michael Gorsch	Council Member	January 31, 2016
Betty Husband	Council Member	January 31, 2016
Donna Plummer	Council Member	January 31, 2018
Appointed Officials		
Sally Hall	City Clerk	January 31, 2015

Independent Accountant's Report on Applying Agreed-Upon Procedures —

To the Honorable Mayor and
Members of the City Council
City of Millersburg, Iowa

We have performed an agreed-upon procedures engagement of the City of Millersburg pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Millersburg for the period July 1, 2013 through June 30, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed debt, including revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of noncompliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Millersburg, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Millersburg, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Millersburg and other parties to whom the City of Millersburg may report. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Cedar Rapids, Iowa
September 9, 2014

Detailed Recommendations

Detailed Recommendations

For the Period July 1, 2013 through June 30, 2014

- (A) **Segregation of Duties** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that incompatible duties are being performed by the same person.

Recommendation - We realize that segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

- (B) **Deposits and Investments** - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, the resolution naming official depositories adopted by the City Council on January 7, 2013 does not indicate the deposit limit by individual institution for the checking and savings accounts as required by Chapter 12C.2 of the Code of Iowa.

Recommendation - The City should adopt a written investment policy which complies with Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (C) **Electronic Check Retention** - Chapter 554D.114 of the Code of Iowa allows the City to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The City does not receive an image of the back of each canceled check.

Recommendation - The City should obtain and retain images of both the front and back of canceled checks as required by Chapter 554D.114 of the Code of Iowa.

- (D) **Bank Reconciliations** - The cash balances in the City's general ledger were reconciled to bank account balances throughout the year. However, there were variances discovered in multiple accounts that were tested. In addition, no independent review of the bank reconciliations was performed.

Recommendation - An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Variances, if any, should be reviewed and resolved timely.

- (E) **Sales Tax** - One of the disbursements tested (paid to Alliant Energy) included sales tax. We noted sales tax was not included for subsequent bills, but the City did not apply for a refund of prior sales tax paid.

Recommendation - We recommend the City contact Alliant Energy to request a refund of sales tax paid.

- (F) **Form 1099-MISC** - The City paid Janet Montross more than \$600 during 2013 for cleaning services, but a Form 1099-MISC was not issued to her.

Recommendation - We recommend the City review the instructions for Form 1099-MISC and issue appropriate forms in the future.

Detailed Recommendations

For the Period July 1, 2013 through June 30, 2014

- (G) **Disbursements** - No written documentation could be found supporting the 15% fuel/insurance surcharge paid to Cox Sanitation for solid waste and recycling collection.

Recommendation - The City should obtain a written agreement for all outsourced contracts that details duties, fees and other terms of the agreement.

- (H) **City Council Disbursement Approval** - Documentation was not available to support City Council approval for 2 of the 30 disbursements tested.

Recommendation - All disbursements should be approved by City Council and documentation of City Council approval should be retained.

- (I) **Payroll** - Timesheets for library employees did not include evidence of supervisory review.

Recommendation - All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (J) **Certified Budget** - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted for the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (K) **Questionable Disbursement** - During the year, \$25 was disbursed for English Valley's P.A.C.E. after prom party. This disbursement may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The City Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

- (L) **City Council Meeting Minutes** - Although we were told that minutes of City Council proceedings were posted as designated in Chapter 20 of the City's Code of Ordinances and such minutes included a summary of receipts as required by Chapter 372.13 (6) of the Code of Iowa, the minutes included in the minute books did not include a summary of receipts.

Recommendation - A summary of receipts should be included in the signed minutes retained in the City's minute book.

Detailed Recommendations

For the Period July 1, 2013 through June 30, 2014

- (M) **Unclaimed Property** - Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation - Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

- (N) **Journal Entries** - Journal entries are not reviewed and approved by an independent individual.

Recommendation - An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (O) **Annual Financial Report** - Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary of the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City's general ledger.

Recommendation - The City should ensure that future Annual Financial Reports agree with the City's general ledger.

- (P) **Local Option Sales Tax (LOST)** - The City's LOST ballot requires LOST receipts be used 25% for property tax relief and 75% for any lawful purpose. The City's LOST receipts are credited to the General Fund and no documentation is maintained to support how the funds were used or the unspent balances held for the specified purposes.

Recommendation - The City should establish a Special Revenue, Local Option Sales Tax Fund to record the collection, disbursement and balance of all LOST funds to document compliance with the LOST ballot referendum provisions.

- (Q) **Reconciliation of Utility Billings, Collections and Delinquent Accounts** - Utility billings, collections and delinquent accounts were not reviewed by an independent person.

Recommendation - Procedures should be established to have an independent person or a City Council member review the reconciliation and monitor delinquent accounts each month. The review of the reconciliation should be evidenced by the signature or initials of the reviewer and the date of the review.